The MORTGAGE BANKER

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Are Your Operating Costs Too High?

What is it costing you to put a loan on your books and to service that loan? Do you have a system of cost accounting to accurately measure your costs?

By WILLIAM I. DE HUSZAR

IN THE face of the present declining market the mortgage banker is becoming more and more cost-conscious. He can no longer say that so long as he is making money he is doing all right. For the past year he has been squeezed between increasing bank rates and decreasing premiums and service fees. The time has come for him to examine his profit and loss statement, particularly the expense items, in a new light, and answer a few questions such as: "How much does it cost me to put a loan on the books?" and "How much does it cost to service a loan?"

Studies are being conducted on a large scale by the MBA Research Committee with the aim of finding a better and more uniform system for mortgage servicing operations. In addition, each mortgage house is making its own attempts to find a more economical solution for mortgage processing and servicing problems.

These studies would be of little value if we were not able to measure the effectiveness of various cost-saving devices and were not able to express them in dollars and cents.

With the help of such cost data the mortgage banker should no longer have to guess at the premium he is to charge and the service fees which he should be allowed to collect. He will be able to keep his eye on the trend of his expenses as well as on his income and thus make his decision on the basis of actual figures.

The writer will attempt to outline a relatively brief procedure that could be used by those mortgage bankers who, up to now, have neglected to take full advantage of the various possibilities their profit and loss statements offer for cost accounting purposes. The search for the final result has to be preceded by a number of analyses; and the writer will go through the steps as comprehensively as the limits of this article permit. It must be borne in mind, however, that no 100 per cent

If there was ever a time when the mortgage man was watching his costs carefully, it is now. Anyone who attended the 1948 Convention became aware of the widespread desire of lenders to know more about what their costs actually are and how they can be reduced. W. A. Clarke, in his address on "Do You Know Your Costs?" told members a number of things that many of them did not know before.

In the August issue, we published the observation of H. F. Philipsborn that it cost his firm $325 to put a loan on the books. In this article, Mr. De Huszar reveals that in 1947, the average size loan made by Dovenmuehle, Inc., of Chicago, was $14,200 and the average cost per loan was $317. This is close to the Philipsborn figure; and since until now there have been so few actual statistics in this field of mortgage operations, the national average may be somewhere in that $300-$350 general area. In any event, we are discovering that it's expensive these days to put a mortgage on our books.

Mr. De Huszar is treasurer of Dovenmuehle, Inc. He began the research for this article some months ago and has come up with some facts and conclusions that should be useful to every lender. The article is even more significant because it represents the experience of one of the oldest and largest mortgage houses in the country and one which admittedly is conducting a very modern and efficient operation. Its method of cost accounting can be easily checked against the system you are using.

accurate conclusion can be drawn. We will, however, get a figure which will be reasonably representative of our costs. We will, furthermore, have an insight into the relative productivity of our various departments and will discover a number of pertinent facts in connection with our operations.

Our study should primarily be based on the following data:

a. the actual expenses incurred in connection with the operations for the fiscal year;

b. the actual income earned as represented by the sale of loans (discounts, commissions, premiums, etc.); and

c. the number and the dollar amount of loans which were actually delivered and paid for by the investor.

Let's take our balance sheet for the year preceding and start the analysis:

I. First, let us determine the average size of loans made and sold during the last year by dividing the total dollar amount of loans made of each kind by the number of loans in the category. Large conventional and FHA Title 608 and 207 loans should be segregated from the other conventional and FHA loans because the large size of these loans would tend to distort the true picture when measuring expenses and income for each $1,000 loan amount.

II. a. Now we are ready to get our first answers; that is, the income earned per loan made by dividing the total commission (discount) and premiums earned by the total number of loans sold and delivered. A separate breakdown can easily be made to determine the average commission (discount) earned, and the average premium collected from the investors per loan.

b. With the aid of the total dollar amount of loans delivered and paid for, and knowing the income therefrom, we can easily find out the commission as well as premiums per each $1,000 loan produced, by dividing our loan earnings by the total dollar amount of loans sold. The commission (discount) items used for this computation should be net figures, that is, any brokerage commission paid to outside agents for securing the loan should be first deducted from the commission income.

III. For the purpose of further inquiry into income and costs (and here we have to use our imagination to some extent), we have to assume the existence of two separate divisions within our organization: *The Production and Sales Division* and the *Servicing Division*. Though it is difficult to draw a definite line between them we will have to assume their separate existence for the purpose of this analysis. Consequently, we will attempt to allocate the income, as well as the expenses, as accurately as possible between these two divisions which consist of the following departments:

W. I. De Huszar

Production and Sales Division
Loan Acquisition Department
Loan Processing Department
Construction Department
Title, Closing and Loan Delivery Department

Servicing Division
Accounting Department
Cashier—Collection Department
Tax Department
Insurance Department

From the standpoint of practicability, servicing technically starts with the collection of the first payment and all that takes place after that time. It also should include all functions performed in and by the Accounting Department.

A—INCOME: Items should be allocated as follows:

Production and Sales
Premiums
Commissions and Discounts
Insurance Premiums on first policies written
Title Commissions
Miscellaneous Services rendered pertaining to production
Interest*

Servicing
Service Fees
Late Charges
Miscellaneous Collection Fees
All Insurance Premiums on renewals
Interest**

Miscellaneous
Non-Recurring Income
Interest***

The interest items should represent net interest income; that is, interest earned in excess of interest paid to banks, etc.

B—EXPENSES:

These items should be charged to the divisions for which they were spent. For the purpose of illustration, a number of items will be explained below:

I. *Compensation of Employees:*

a. *Salaries:*

Charge all salaries and bonuses of all the personnel including management engaged in production and sales activities to the Production and Sales Division. All salaries and bonuses of the servicing personnel should be charged to the Servicing Department. The salaries of those who actually work for both divisions should be divided on a pro-rata basis. The company's contribution to pension or profit-sharing plans will also be distributed on the same basis.

b. *Commissions:*

Fees or commissions paid to our own employees will be included in our computations and charged against Production. Fees and commissions paid to outside brokers will not be shown here but will be deducted from the commissions and premiums earned, and considered as a deduction when computing the income on the loans.

II. *Office Overhead and Similar Items* will be allocated on a 50-50 basis.

III. *Advertising:*

Two-thirds or more of this expense should be charged against the Production and Sales and one-third or less against Servicing. This ratio is based on the assumption that although the

*This is interest earned while buildings are under construction, about one-third to one-half of interest income remaining after allocating first a portion of interest to Miscellaneous Income.

**Interest earned while loans are carried in portfolio, about one-third to one-half of remaining interest income.

***This interest, in the opinion of the writer, should be at least 6 per cent of the capital invested in the business, and should be considered before allocating the other two interest items.

(Continued page 7, column 2)

No Perfect Score in FHA-G.I. Quiz

The average mortgage lender either isn't as well informed on G.I. and FHA lending procedure as the officials of these agencies think he should be or the officials themselves can think up some pretty difficult questions to ask. Whatever the reason, it developed that at the FHA and G.I. quiz contest at the Friday morning session of the Convention, no one made a perfect score.

A. M. McDonald, of the Walker Bank & Trust Company, Salt Lake City, won the G.I. contest carrying a $100 cash prize, answering all but two of the questions correctly. It was Mr. McDonald's first MBA convention and we think he should feel a little pleased with himself.

In the FHA contest, two tied for first place, Maurice R. Massey, Jr., of Peoples Bond & Mortgage Co., Philadephia, and W. C. Warman of the Sumner Mortgage Company, Oak Park, Ill. But in this contest the going was a little tougher—each winner missing four questions each. Mr. Massey missed questions 7, 11, 15 and 23 and Mr. Warman missed 4, 7, 15 and 20. Mr. Massey's win probably isn't too surprising when it is recalled that less than a year ago he was one of the assistant commissioners of FHA.

Both winners missed questions 7 and 15. Question 7 stated "under section 603 an FHA insured mortgage may be on structures containing 5, 6 or 7 dwelling units" and the answer is "true." Question 15 stated that "FHA will accept for mortgage insurance property covered by a mortgage in which there is no hazard insurance" and the answer is also "true." Seems simple now but these questions were missed by almost everyone.

Most of those who submitted sets of answers shouldn't feel two badly. Consider the St. Louis man who had 18 of the 26 FHA questions wrong and the Detroit man who missed 17. And don't laugh too quickly because both of them have done an excellent FHA business.

MBA's 35th Annual Convention Was Largest; Interest Centered on Higher G.I. Rate

MBA's 35th—and largest—Convention is now a matter of history. Probably it was the most important meeting the Association has ever held; a full house at every session seemed to clearly reflect the importance of the subjects under discussion and the serious interest of those who attended. Further, the gravity of international relations and the many complex domestic problems facing the nation combined to lend an air of seriousness to the meeting this year that hasn't been so clearly evident before.

It was an occasion for members to hear the opinion of recognized authorities on questions with which all mortgage people are concerned. And it was also an occasion when correspondents wanted to see and talk to investors and when investors wanted to see and talk to the correspondents. It was particularly a year when an exchange of viewpoints seemed necessary; and there was a lot of it in New York during the Convention.

An appraisal of what it all amounted to in the end would have to be "good." It seemed evident that when the Friday night banquet rolled around, most of our members had a better perspective of what is ahead and what to look for in the immediate future. And if that is true, the Convention accomplished the objective of any successful Convention —and accomplished it well.

High-light as far as to what people were thinking and talking about was the possibility of an increase in the G.I. interest rate to 4½ per cent; and it was noticeable that our speakers were poles apart in their opinion. Maybe very soon we will see who guessed right.

Senator McCarthy had a warning for mortgage lenders *(see page 8)* and he's been sounding it in other places since. A week after he addressed us, he declared that "it is pretty much up to the private lending institutions themselves whether the federal government is forced into the banking business or whether they take care of the situation themselves.

"This practice of refusing to make loans on FHA approved homes is so widespread it is jeopardizing the housing program which Congress approved earlier this year. If this continues, there is only one alternative—putting the government into the loan business —which I heartily dislike. However, they are giving us more and more reason for doing so."

On our scheduled program, Dr. Slichter's address caused the most comment, both among members and in the press. And well it might because Dr. Slichter has a remarkable record in his field. A writer in the *Boston Herald,* describing our meeting, recalled that it was just ten years ago last Spring that he heard Dr. Slichter, speaking at a week-end conference at Harvard, predict what was ahead—and how it all materialized just about in the way he forecast.

"The remarkable thing about Dr. Slichter's forecast at that time was that he was the only bull in the outfit. Man after man went to the platform and spoke his piece, the general tenor of which was that things were bad and the outlook worse."

Dr. Slichter was right then; again in 1943 he published "Present Savings and Postwar Markets" in which he predicted expanded markets, great business activity and rising prices. He was dead right again. Now he has a new book* out, in which he again paints an optimistic future. That was essentially the message he had for MBA in New York—that our economy is sound, remarkably so; and that no boom has been accompanied by so little reckless speculation. We suggest you read his MBA address and get his new book.

Registration was an all-time high—roughly 1460. That's more than we ever had before. Practically every state was represented as well as every large city.

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*The American Economy, Its Problems and Prospects, by Sumner H. Slichter 230 pages. Alfred A. Knopf, New York. Price $2.75.

1948 Service Award to Milton T. MacDonald

Milton T. MacDonald, vice president of the Trust Company of New Jersey and president of the New Jersey Mortgage Bankers Association, was given the 1948 distinguished service award for the most valuable contribution to the Association during the past year. He headed the membership campaign just closed when 160 new members were secured. That's just three less than in 1944-45, when John C. Thompson was membership chairman. Seems Mr. Thompson is prominently around when we make the membership records.

Growth last year was of a most substantial nature. Membership applications were carefully scrutinized by the qualifications committee to insure the type of progress which all members realize is essential. Mr. MacDonald of course is too well-known among the membership to need further introduction here. He has played an important role in our educational work for many years and has interested himself in practically every phase of our activities. John C. Thompson paid him a warm tribute at the Convention banquet for the assistance he had rendered.

President Nielsen Begins New Association Year; To Speak Before West Coast Groups

The new 1948-49 MBA administration of President Aksel Nielsen went into high gear immediately after the close of the Convention sessions. A week after, President Nielsen was back in Washington conferring with VA officials and had made preliminary plans for a West Coast trip to begin November 15. Washington Counsel Samuel E. Neel will accompany him when he appears before various local mortgage groups on the Coast. President Nielsen was elected at the opening afternoon session to succeed John C. Thompson. R. O. Deming, Jr., of Oswego, Kan., was named vice president.

There is quite a bit of human interest connected with the top MBA officials this year. President Nielsen is a native of Denmark and came to this country in 1912. He was educated in Denver schools and his early career was in the real estate field. He became associated with The Title Guaranty Company in 1925, and was elected president in 1946. He has been active in MBA since 1937.

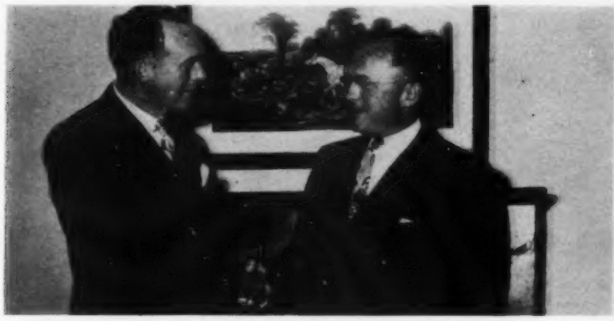
President Nielsen would be the first to object to any such description but any way you choose to look at it the facts about him add up to the traditional American success story. In the space of about two years, he has been named to head his own firm, the oldest title company in Colorado, and the national organization of mortgage lenders and investors.

His earlier career has intrigued this writer and should interest others as much so. His father and mother spent part of their honeymoon in this country and one of the places they visited was Colorado. Mr. Nielsen, Sr., was a large importer and shipper in Copenhagen and maintained residences in Paris and Hamburg and had extensive interests throughout Europe. During the Japanese-Russian war at the turn of the century, he made heavy shipments to the Russians through their Far Eastern ports. As the war wore on, he became heavily involved in keeping supplies moving. Then suddenly catastrophe struck when several of his own ships and others he had leased were sunk by the Japanese. The development was a heavy financial blow and the Nielsens decided to begin again somewhere else. They remembered their honeymoon travels and decided that of all the places in the world they had seen, Colorado appealed to them most as the place to settle. That is how the Nielsens came to Colorado. In later years they returned to Denmark although President Nielsen remained in this country. They were there all during the occupation but are now with their son in Colorado.

The MBA camera catches a group of Association past presidents, the men who have made the wheels turn in former years and retain their active interest today. The occasion was the Past Presidents' Advisory Council luncheon Tuesday when MBA former chiefs heard President Nielsen tell of his plans for the coming year. Guy T. O. Hollyday, immediate past president, presided. Clockwise around the table from left: President Nielsen, Byron V. Kanaley, Hiram S. Cody, Ennis E. Murrey, S. M. Waters, Owen M. Murray, Herold G. Woodruff, Charles A. Mullenix, Byron T. Shutz, Dean R. Hill and Guy T. O. Hollyday. Missing: A. D. Fraser and L. A. McLean, both ill; James W. Collins and E. D. Schumacher who arrived at the Convention later; Frederick P. Champ, who could not attend the Convention; and W. Walter Williams who, as new chairman of the Committee for Economic Development, was speaking in New York that noon. John C. Thompson, retiring president, had not arrived from the Convention session when the photograph was taken.

Charter Member of MBA

There are also some interesting facts about MBA's new vice president, R. O. Deming, Jr., which set him apart from almost all other members. First, his firm, The Deming Investment Company organized in 1880, was a charter member of MBA's predecessor and it is the only one, we believe, that is still active. Deming's father was MBA president in 1923-24, another situation that can't be paralleled within the organization. And, further, Mr. Deming himself has been a member of long standing and active in every phase of MBA work, and probably knows per-



President John C. Thompson congratulates newly-elected MBA president Aksel Nielsen.* Right photo, The Mortgage Bankers Legion holds its annual meeting and elects officers for the coming year. W. L. King, president, Boss & Phelps Mortgage Company, Washington, D. C., was named Grand Marshall to succeed Joseph M. Miller of New Orleans. W. A. Clarke, president, W. A. Clarke Mortgage Co., Philadelphia, was elected secretary. Left to right: G. Calvert Bowie; R. O. Deming, Jr. (standing), newly-elected MBA vice president; Stanley H. Trezevant; Secretary George H. Patterson; Mr. Miller and Mr. King.

sonally as many people within the Association as any other member.

As previously announced, the other MBA posts for this year are:

For four-year terms on the board of governors: Milton T. MacDonald, vice president, The Trust Company of New Jersey, Jersey City; C. Armel Nutter, president, Nutter Mortgage Service, Camden, N. J.; C. W. Kistler, president, C. W. Kistler Company, Miami; Edward F. Lambrecht, president, Lambrecht Realty Company, Detroit; Jack D. Merriman, Merriman Mortgage Company, Kansas City, Mo.; Homer C. Bastian, president, The Fidelity Investment Company, Wichita; and Allyn R. Cline, president, Cline Mortgage and Trust Company, Houston.

Regional vice presidents for one-year terms: Amos G. Hewitt, Amos G. Hewitt Mortgage Company, New Haven; Brown L. Whatley, president, Stockton, Whatley, Davin & Company, Jacksonville, Fla.; C. P. Kennedy, Kennedy & Stevenson, Cincinnati; Earl Linn, president, The Weitz Investment and Realty Company, Des Moines; H. B. Moffitt, vice president, Realty Mortgage and Sales Company, Oklahoma City; and W. Robert McMurray, vice president, Commonwealth, Inc., Portland, Ore.

Regional vice presidents for two-year terms: James W. Rouse, president, The Moss-Rouse Company, Baltimore; Walter Gehrke, president, Detroit Mortgage and Realty Company, Detroit; O. G. Gresham, Gresham & Company, Birmingham; Andrew Sproule Love, vice president, Edward K. Love Realty Company, St. Louis; A. H. Cadwallader, Jr., president, Mortgage Investment Corporation, San Antonio; and Harold F. Whittle, president, H. F. Whittle Investment Company, Los Angeles.

*President Nielsen recently had the distinction of having his portrait done by a painter who, if he isn't the world's best painter then certainly is one of the most famous people in the world who paint. The artist was Gen. Dwight D. Eisenhower and the occasion was his vacation trip to President Nielsen's 2000-acre ranch near Denver. The two are friends of long standing. Secretary George H. Patterson was one of a party of six at the ranch which included Palmer Hoyt and Major Bonfils of the *Denver Post.* On arrival, Secretary Patterson found Gen. Eisenhower hard at work on the Nielsen canvas. This was August and the General had only been trying his hand with the oils for about four months; but since then, we've noted that he and former Prime Minister Churchill both had pictures on exhibition at a recent art show in New York.

As one of the best-known and most-publicized figures in the world today, it would hardly seem possible that a publication such as THE MORTGAGE BANKER could pass along any information about Gen. Eisenhower that has not been previously published. The painting angle seemed brand new to us until the New York gallery displayed an Eisenhower canvas; but it does seem to be new that the General, like so many famous men in history, is an amateur cook. During the trip to President Nielsen's ranch, Secretary Patterson arose very early one morning to find Gen. Eisenhower already preparing a special breakfast for the party as he had promised the night before. The result was corn meal mush topped with chicken gravy which all guests agreed was as tasty a dish as they had encountered in many a morning. THE MORTGAGE BANKER, even in a footnote, won't attempt to pass along recipes but let it be noted for the record that Gen. Eisenhower's method of preparing a steak for the fire sounds as if he knows his way around in the kitchen.

Convention Footnotes

Heard by your editor in a Commodore elevator: One sweet young thing saying to another on their way to the banquet, "Wish I were going to that Air Force party instead of to the mortgage bankers. . . " (The Air Force Association moved into the hotel for their reunion the day we closed.) What could the Air Force boys have that our members haven't?

Asa Groves of the VA in his talk said that "within the next month" the agency will set up minimum standards. That's what President Thompson had recommended to Carl Gary sometime ago. We're glad to see this action being taken.

Our Convention Hotel, the Commodore, is headquarters this year for most of the associations which operate in our general field. The Producers Council followed MBA into the hotel; later the Commodore will have the U. S. Savings and Loan League and the National Association of Real Estate Boards.

MBA used to have only one woman member and now it has at least two. Are there others? Mrs. Minnie W. Miller of Salt Lake City, a member of long standing and a familiar and welcome figure at all MBA conventions, attended the New York meeting. In addition, Mrs. Charles A. Shaw, president of Shaw & Francis, Inc., St. Louis, was there.

In case you didn't see the Association's gift to retiring president John C. Thompson, it was a Hamilton wrist watch. The gift to Mrs. Thompson was also a watch and the gift of the New Jersey Mortgage Bankers Association to Mr. Thompson—its first president—was a cigarette case.

While this post-Convention issue of THE MORTGAGE BANKER doesn't contain our customary camera coverage of the meeting, we did catch a few shots at the first governors' luncheon. Above, left photo, left to right, facing the camera, you'll recognize Wallace W. True, Aubrey M. Costa, Harry C. Peiker, a guest, C. Armel Nutter, R. C. Houser, Frank L. Wilkinson and Frank C. Mills. Directly across from Mr. Mills is George H. Dovenmuehle, Jr., a guest at the luncheon. His father is a member of the board. Right photo, left to right facing the camera, you'll see Clyde C. Kistler, George W. Elkins, Miller B. Pennell, Paul J. Vollmar, Albert M. Mager, Howard S. Bissell, Charles H. Christel and Kenneth J. Morford.

Convention Talks Available on Request

Since no *Year Book* will be published this year, members who did not hear all the Convention speeches may wish copies for review now. The national office has the following for distribution to those who request. The text of one of them, that of Dr. Sumner H. Slichter, is a much more extensive exposition of his theme that our present prosperity is here to stay for a while than the talk he actually gave. Lack of time forced him to condense his remarks. Since none of these addresses will be published, this offer will be your only opportunity to secure copies.

"President's Report" by John C. Thompson, MBA president, 1947-48.

"The Legislative Outlook" by Samuel E. Neel, MBA Washington counsel.

"Trends in Prices, Demand for Capital, and Supply of Capital" by Dr. Sumner H. Slichter, Harvard University.

"How May Institutional Investors and Correspondents Cooperate to Reduce Operating and Service Costs" by Harvey E. Handford, Bankers Life Company, Des Moines.

"How to Further Improve the Company-Correspondent Relationship" by Wallace Moir, Belmont Co., Beverly Hills, Calif.

"The Marketing of Mortgages" by Edgar N. Greenebaum, Greenebaum Investment Co., Chicago.

"Good Loan Submissions and Committee Procedure" by Donald W. Campbell, State Mutual Life Assurance Co., Worcester, Mass.

"The Farm Mortgage Outlook" by R. I. Nowell, Equitable Life Assurance Co.

"Money Rates a Political Problem" by Joseph Stagg Lawrence, Empire Trust Co., New York.

"Trend of Interest Rates" by Robert Warren, Institute for Advanced Study, Princeton, N. J.

"Cutting Service Costs" by Brown L. Whatley, Stockton, Whatley, Davin & Co., Jacksonville.

"Interim Bank and Insurance Company Financing" by George H. Dovenmuehle, Dovenmuehle, Inc., Chicago.

"Factors to Consider in Lending on Special-Purpose Income-Bearing Properties" by Henry F. Fisher, Equitable Life Assurance Co.

"Outlook for Interest Rates" by Dr. Marcus Nadler, New York University.

Other Associations

A local mortgage bankers association has followed MBA's lead and is making a significant start in sponsoring more and better education in mortgage practices. The Detroit Mortgage Bankers Association is sponsoring a course under the auspices of the business administration of the University of Michigan extension course known as "Finance I."

It deals with fundamentals of mortgage practice using a single residential home as the subject. Harry Steffey, assistant state director of the Detroit office of FHA is the instructor.

Thurlow Guinn of the Family Reserve Insurance Company, Birmingham, was elected president of the Mortgage Bankers Association of Birmingham to succeed John C. Hall. Carl Hulsey of Garber, Cook & Hulsey was named vice president to succeed Nelson Weaver and H. A. Drake of Liberty National Life Insurance Company was named secretary and treasurer to succeed Robert D. Cotton. Retiring officers were voted a resolution of thanks.

Election of John T. Sloan Jr. as president of the Cincinnati Mortgage Bankers' Association is announced. He succeeds E. R. Stevenson. Sloan is associated with the mortgage department of Robert A. Cline, Inc.

Others elected include John E. Jordon, vice president; Carl H. Albertz, secretary, and Rodney W. Willits, treasurer. E. Wirt Russell, Lewis E. White and Stevenson were appointed trustees.

(Continued next page)

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OCTOBER, 1948

EXECUTIVE COMMITTEE MEETS IN CHICAGO NOVEMBER 29-30

A meeting of members of the executive committee and the chairmen of all other committees has been called by President Nielsen for November 29 and 30 at the Drake Hotel, Chicago. All activities of the Association for the coming year will be discussed at this meeting and each committee chairman will report on plans of his group.

The executive committee consists of R. O. Deming, Jr., chairman, C. Armel Nutter, Norman H. Nelson, Wallace Moir, Stanley H. Trezevant, Joseph M. Miller, Dean R. Hill, George H. Dovenmuehle and President Nielsen.

The committee chairmen are John C. Thompson, policy; James W. Rouse, federal legislative; Walter Gehrke, veterans; Robert H. Pease, education (co-chairman); Ferd Kramer, clinic; Aubrey M. Costa, membership; E. R. Haley, membership qualifications; Milton T. MacDonald, finance; Guy T. O. Hollyday, research; Mr. Hill, ways and means; Mr. Dovenmuehle, FHA, and Mr. Nutter, education (co-chairman).

OTHER ASSOCIATIONS

(Continued from page 6)

Members of the newly-organized Mortgage Bankers Association of New York recently heard a panel discussion of the housing act led by Harold Clay, state FHA director . . . this group held a luncheon during the New York convention. . . . Henry P. Everts, president, Houston Mortgage Bankers Association, recently addressed the Real Estate Institute in that city on "Financing—the Heart of the Deal."

Are Your Costs Too High?

(Continued from page 2)

Servicing Division does not directly benefit from the advertising, it gains a certain prestige from it.

IV. *Automobile Expense:* is charged in its entirety to the Production and Sales Division. If collection problems were to increase we would have to charge our Servicing Division with a portion of our Automobile Expenses.

V. *Taxes, Licenses, Insurance Expenses, as well as Legal and Professional Expenses:* should be charged according to the items involved. For example, a lawyer's fee for assisting in drawing up a special loan should be charged to the Production and Sales Division and the fees paid to our auditors should be charged to the Servicing Division.

With the breakdown of the income and expenses in two main categories, we can set up the Profit and Loss Statement according to the Divisions. First, however, we will have to deduct the federal income taxes apportioned pro rata for each Division.

A number of interesting facts are now in our hands. We find that we have derived more income from the Servicing Division than from the Production and Sales Division. This is not because the income of the Servicing Division was greater than that of our Production and Sales Division, but because our servicing expenses were almost half what it cost us to produce and sell the loans.

Division of Earnings

If, for instance, within our own organization these two divisions represented two independent companies, the net income of the Production and Sales Company would have been 31.3 per cent of the total income after federal taxes; that of the Servicing Company 41.7 per cent; and non-recurring and other income 27 per cent. It might be argued, however, that we should charge the Servicing Company for acquiring the loans for service and credit the Production and Sales Company. This, in itself, would change somewhat the allocations and the results. We also have found that the Production and Sales Division earned 54 per cent of the income while it spent 66 per cent of the expenses; the Servicing Division earned 37 per cent of the income while it spent 34 per cent of the expenses. Interest earned on invested capital and non-recurring income represented 9 per cent of the total income.

At this point we are ready to get most of our "cost" answers. Taking the expenses incurred by the Production and Sales Division and dividing them by the number of loans made during the year, we will find how much it costs to put a loan on our books. According to our computations the average size loan made in 1947 was $14,200 and the average cost per loan was $317. This included acquisition, construction, closing costs, overhead and salaries paid to principal owners. Without the latter our cost per loan was only $252. Using the Production and Sales expenses and the dollar value of the loans sold, we can find the answer as to how much it costs to produce a loan per $1,000 loan amount.

The cost of servicing a loan per year can easily be ascertained by taking a total of our servicing expenses and dividing it by the number of loans serviced. By taking the total dollar volume of loans serviced, the cost of servicing loans per $1,000 may be determined.

This, it seems, is now the general framework of cost accounting procedures without taking into consideration possible different applications of the same basic data. The various cost studies prepared by mortgage bankers indicate a vast difference in the approach to the problem. In the foregoing analysis the writer has attempted to reduce this problem to its lowest common denominator for the purpose of providing mortgage houses with a ready cost accounting procedure.

Cost analysis, in general, should be as useful a tool for the mortgage bankers as it is for industrial management.

REMEMBERED REMARKS FROM THE CONVENTION

JOHN C. THOMPSON, MBA president, 1947-48: "The core of our present crisis throughout the world is a conflict of basic beliefs, a conflict between communities of free individuals determining their own destiny and communities in which human thought and action is degraded to complete subservience to the State.

"I am not suggesting that we wrap ourselves in the trappings of the past. The constitution of this country is not accepted as a complete and full answer to all our current and future problems. That document is flexible. It is not a static instrument; it is a dynamic instrument. But it has one changeless feature: the recognition of the rights and dignity of man. A nation's economy will change. Industry and commerce and even politics must be sufficiently flexible to change to meet a changed economy. We have accepted government controls; we have accepted burdensome taxation and, to some extent, we have bartered away some of our freedom for questionable experiments. We have witnessed the failure to recognize the vitalizing effect of free competition and the importance of that competition in assuring a dynamic economy. We must reassert our rights! We must not permit any further infringement on our incentives. We must renew our militant faith in our freedom and in our system of opportunity."

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SEN. JOSEPH MCCARTHY of Wisconsin: Congress would be forced into the "unhappy alternative " of putting the government in the business of making home loans if loaning agencies fail to cooperate in making the more liberal FHA insured loans on lower-cost homes provided for in the Housing Act of 1948.

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GEORGE H. DOVENMUEHLE, Dovenmuehle, Inc., Chicago: "Practically every one interviewed in my survey of interim financing said his banker loaned on a combination of his own credit, the soundness of the loan itself and on the insurance company commitment—with emphasis on his own credit and the insurance company commitment. But if our credit is good and the credit of the insurance company the best in the world, why are we currently paying our banks from 1 per cent to 3 per cent more interest than they receive from prime commercial names? Aren't the banks still suffering from fears that they will again become the owners of slow mortgages and real estate? Do you think that we have done a job of selling the banks and making them see that we have a quick and good 'account receivable'?"

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EDWARD N. GREENEBAUM, Greenebaum Investment Co., Chicago: "Mortgages are an excellent hedge against inflation. Other securities run for long periods of years and have only small sinking funds. With a portfolio of good mortgages, there is money rolling in every month which can be reinvested at prevailing rates."

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WALLACE MOIR, Belmont Co., Beverly Hills, Calif: "These are strenuous times. The steady march of socialism could include the insurance business within its ever-widening scope. The expanding circumference of the executive branch of government would bring life insurance management inside its circle."

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HARVEY HANDFORD, Bankers Life Company, Des Moines: "It is of vital importance to you and to us to work constantly toward reduction of operating expenses consistent with good business practice. The mortgage business is an expensive one to transact compared to the purchase of other types of securities."

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DONALD W. CAMPBELL, State Mutual Life Assurance Company, Worcester, Mass.: "Where you underwrote one dollar of loans in 1945, you underwrote three dollars in 1947. In this rapid expansion, there is little wonder that there should be a tendency to allow factory production to replace the personal touch."

SAMUEL E. NEEL, MBA Washington counsel: "Early in 1948 it was said, in some quarters, that lenders were preventing veterans and others from getting loans. Builders and others made some rather wild statements about the unavailability of credit and the necessity of the government 'to do something' about it. In contrast, MBA has said that interest rates should be allowed to seek their own level in a free and uncontrolled economy, that further extension of liberalized and subsidized credit on the part of the government was unwise and that there would be plenty of credit for all legitimate needs. This stand has been right. Construction has beaten all records."

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DR. SUMNER H. SLICHTER, Harvard University: "After three years of boom the country, on the whole, is in a remarkably strong position. Despite the large expansion of production and the rapid rise in prices the economy has developed few serious weaknesses. Indeed, there has never been a boom of comparable magnitude accompanied by so little reckless speculation."

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MILTON T. MACDONALD, president, New Jersey Mortgage Bankers Association: "Uncle Sam is desperately involved in the greatest monetary juggling act of all time in an attempt to make money both dear and cheap at the same time . . . cheap to service the public debt, dear to combat inflation—maybe."

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JOHN M. DERVAN, VA, Washington: "We are studying the possibility of an increase in the G.I. interest rate to 4½ per cent. We are carefully considering how the best interests of veterans will be served. We are weighing the higher financing costs as against the desirability of making the loans salable."

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RAYMOND M. FOLEY, HHFA Administrator: This country must have a $6000 house and it must get it by private enterprise—but it can't be done without reducing costs, reducing costs all down the line.

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